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RUEHTU/AMEMBASSY TUNIS 7253
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C O N F I D E N T I A L SECTION 01 OF 02 ALGIERS 000690

SIPDIS

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TAGS: [ECON](#) [EINV](#) [PGOV](#) [AG](#)

SUBJECT: COMMERCE MINISTER SAYS PRIVATIZATION WILL CONTINUE

REF: A. 2007 ALGIERS 1748

[1](#)B. ALGIERS 24

[1](#)C. ALGIERS 662

Classified By: Ambassador Robert Ford for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Commerce Minister El Hachemi Djaboub told the Ambassador that Algeria is determined to go forward with the privatization of public enterprises, but admitted that it has more parastatals than interested buyers. Djaboub said he noted a trend over the last decade within the government toward support for privatization, but complained of obstacles created by unions. Djaboub and the Ambassador discussed several examples of successful privatization efforts, including one by an American firm, and the Minister said the government recognizes the need for its various enterprises to modernize and become efficient, rather than simply redistributing Algeria's oil profits. END SUMMARY.

PRIVATIZATION IS ACCEPTED

[1](#)2. (SBU) On June 8, during a discussion of Algeria's bid for WTO accession (septel), Commerce Minister El Hachemi Djaboub discussed at length his country's privatization efforts. He began the conversation by defending Algeria's treatment of foreign companies, insisting that foreign-domiciled companies are not discriminated against under Algerian law, and that Algeria is gradually implementing economic and financial sector reforms. He said Algeria remained "very enthusiastic" about foreign private banks operating in Algeria, but admitted that there was still lingering fear of opening the market too much or too quickly as a result of the 2004 Khalifa bank scandal. Ambassador noted it was important for Algeria to keep moving ahead and pointed to the technical assistance coming from the U.S. Treasury Department to strengthen commercial bank supervision so as to avoid a repeat of the Khalifa bank scandal.

[1](#)3. (C) Minister Djaboub said that he believed there is far more support within the government for privatization of Algerian state-owned companies today than existed 10 years ago when he worked at the Ministry of Industry. He admitted that Algerian public companies need access to modern business know-how and marketing techniques in order to compete internationally and actually export products. Djaboub said specifically that managers of Algerian parastatals needed to learn best practices regarding business strategy, operational processes, and standards of quality. He said that many in the government recognize that these companies must adapt to modern market conditions and not simply exist as a means to redistribute oil profits. The biggest challenge, the Minister said, is that Algeria has more companies to privatize than there are interested buyers.

EXCEPT AMONG UNIONS

14. (C) The Ambassador cited several successful examples of former parastatals that were acquired by Algerian investors and that are now not only exporting to nearby markets in the Mediterranean region and sub-Saharan Africa, but also to the United States. He also mentioned the recent USD 120 billion investment by American company General Cable to acquire 70 percent of an Algerian industrial cable factory in Biskra, southeast of Algiers. The Ambassador noted, however, that company officials told him that while the facilities are sound, the company has far more employees than needed to run at peak efficiency. Djaboub nodded his head in understanding, and said that Algerian unions still have a "Socialist vision," and that privatization is considered a "taboo" subject among unions.

15. (SBU) Djaboub said that 95 percent of Algeria's privatization efforts have gone smoothly. But, he added, some obstacles created by labor unions do inhibit the privatization process. By way of example, he said that under Algerian law, a company cannot downsize its workforce after acquiring the controlling interest of a state-owned firm, and must share 10 percent of its profits with its workers. For many companies, he said, this is not a problem; for example, he pointed to the SIM corporation (which the Ambassador recently visited and which actually doubled its workforce after acquiring two parastatal bottling companies and is now exporting bottled water to the United States). Other

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companies have developed ways around the hiring and profit-sharing regulations, he said, by helping groups of workers form their own companies and then contracting with them for services such as security and cleaning. He mentioned a German firm that acquired an Algerian soap company and now contracts with a group of former employees for delivery services. He said the workers accepted these arrangements and the company is now producing soap to German standards.

COMMENT: LAYING IT ON THE TABLE

16. (C) Djaboub's statements in support of privatization -- made in front of his staff -- along with his somewhat antagonistic riff about unions, are interesting coming from a high profile member of the Islamist Movement for a Society of Peace (MSP) Party. In fact, he echoed a story told to us by the president of the Algerian SIM Group, that Socialist Workers' Party leader and member of parliament Louisa Hanoune falsely and publicly accused company executives of slashing salaries and jobs when it acquired two state-owned companies, a claim the company vehemently denies. Djaboub's willingness to discuss privatization so openly and critically may signal that it has become a largely accepted topic within the government, even if it seems to run counter to the beliefs of minority parties, including his own. He and other ministers have, in recent months, floated a number of proposals for moving forward with the privatization of state-owned companies, including the consolidation of parastatals within sectors, and creating joint ventures between the public companies and foreign firms. The process remains slow and the Algerians move with great trepidation, especially in light of turbulence in world financial markets (reftels) and their worries about domestic unrest and labor strikes. Nonetheless, Djaboub's interest and openness about privatization seems to indicate that the process will continue, even if at a slow and careful pace.

FORD